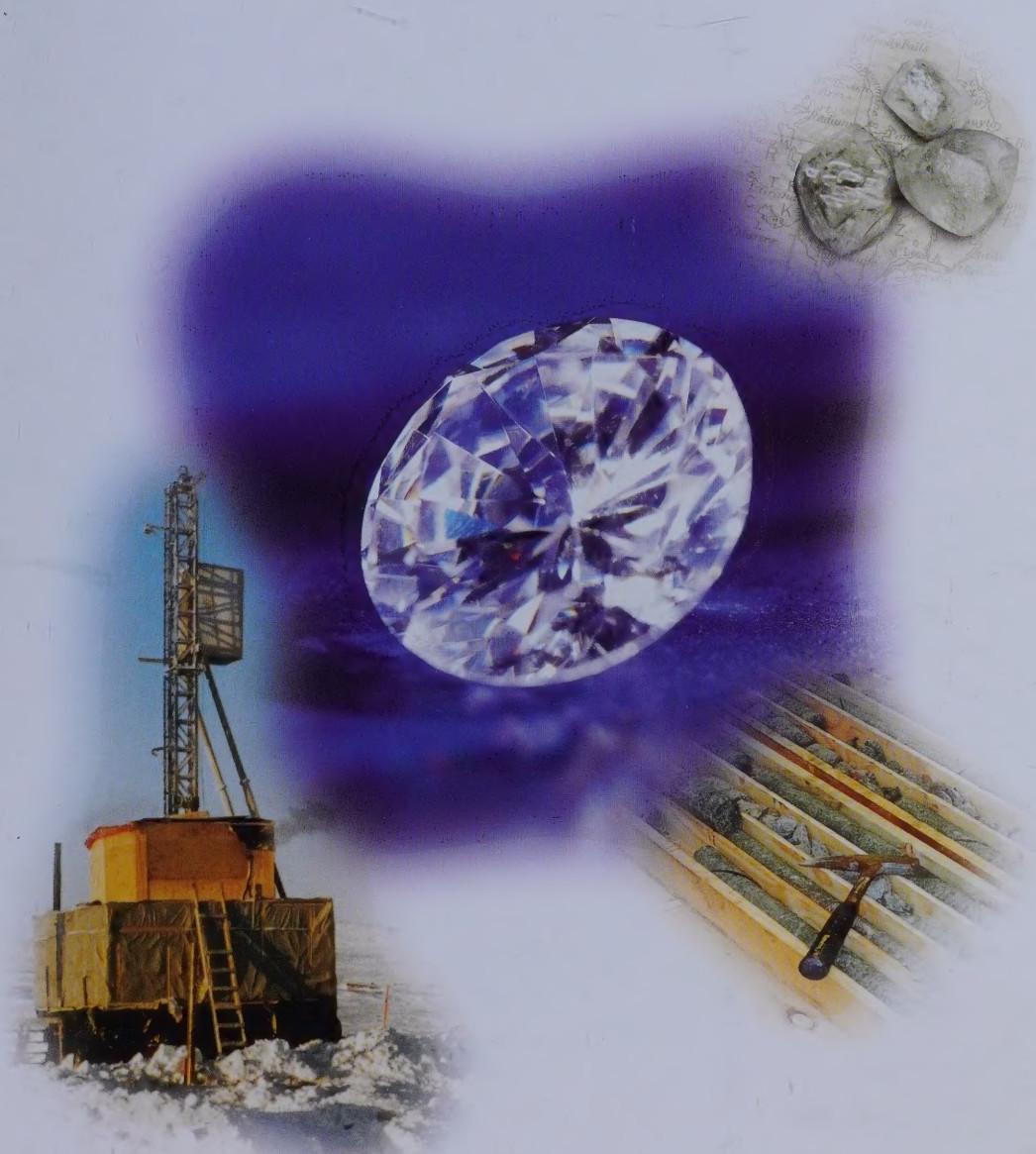


AR58

# MOUNTAIN PROVINCE MINING INC.



## PROFILE

Mountain Province Mining

venture partner Monopros

is one of the few ventures to

Limited, a wholly-owned

locate a likely commercial-

subsidiary of De Beers

grade diamond deposit in

Consolidated Mines Ltd.

North America. Its "AK-5034"

Mountain Province, with

kimberlite pipe is recognized

cash and current assets of

as one of Canada's better

more than C\$7.0 million,

grade discoveries, and it

is adequately financed for

ranks high among discoveries

its next level of growth.

and deposits worldwide.

The Company's AK/CJ

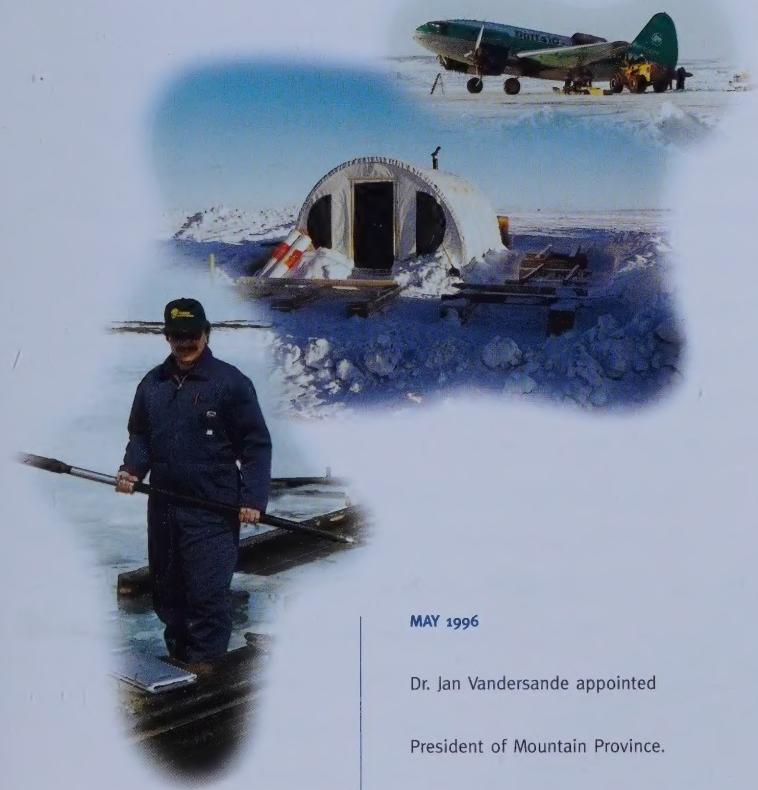
diamond property, which

hosts this discovery, is under

development by joint

{ At the Forefront of  
Canada's Emerging  
Diamond Industry }

## THE YEAR IN REVIEW



## MAY 1996

Dr. Jan Vandersande appointed President of Mountain Province.

## JUNE 1996

First 25 tonnes of 100-tonne mini-bulk sample yields diamonds with a weight of 75.9 carats. Larger stones recovered as well.

## OCTOBER 1996

\$13.1 million financing closes.

## DECEMBER 1996

Fall drill program results in four holes intersecting narrow kimberlite dykes.

## MARCH 1997

Mountain Province and De Beers, through Monopros, enter into a joint venture agreement to explore and develop the AK/CJ property, including the rich AK-5034 kimberlite pipe.

## MAY 1997

Monopros informs Mountain Province that it has encountered significant intersection of continuous kimberlite.

## TO OUR SHAREHOLDERS

Four key events of the past year, including a landmark joint venture agreement, brought Mountain Province to the forefront of the emerging Canadian diamond industry. While these achievements validated our development strategies of the past several years, we are most gratified that they have paved the way for our shareholders to realize the full potential of the Company's diamond initiative.

Of primary importance was the conclusion of a joint venture agreement with Monopros Limited, a wholly-owned subsidiary of De Beers Consolidated Mines Ltd., to develop the AK/CJ property in Canada's Northwest Territories. This agreement provides that Monopros can earn a 60% interest in the project by conducting continuing exploration and bulk sampling on one or more new kimberlite deposits. As well, they must complete a feasibility study and fund development and construction of a commercial-scale mine (see Agreement Details, page 4).

A significant element of this agreement is that Monopros becomes the project operator. Having more experience than any group in the world at discovering kimberlites and diamonds, Monopros and De Beers are ideally qualified to explore and develop the property. We are confident that their expertise and resources will significantly enhance the values of the AK/CJ properties.

The decision by De Beers to initiate this agreement certainly validates our long-held belief in the property's outstanding potential.

Monopros has advised us that, based on its initial due

diligence review, it believes there are at least four and possibly as many as eight new kimberlite bodies in the central and eastern parts of the AK/CJ claim blocks. Indeed, we have been working from strong evidence that the AK claims contain more kimberlite intrusives than are presently recognized.

Another important development during the year was completion of the 104-tonne mini-bulk sample from the AK-5034 pipe. The results indicated an average grade of

2.48 carats per tonne, which ranked it well among world diamond pipes. Monopros combined these results with the valuation of the diamonds by an Antwerp diamantaire and their own diamond database to arrive at an initial value of between US \$55 and \$60 per tonne. De Beers is currently examining and evaluating the diamonds themselves and will arrive at a final value in the near future. The 5034 pipe is calculated to contain approximately 20 million tonnes of kimberlite.

While significant, this tonnage would not justify Monopros' expected approximately C\$500 million capital investment to bring the property to production. At least one or more pipes of equal or greater value are needed to reach a desired resource of 40 - 50 million tonnes. Consequently, their initial exploration has focused on finding additional pipes.

In May 1997, Monopros announced its first significant exploration success, intersecting 51.5 metres of continuous kimberlite only 1.8 kilometres northwest of the AK-5034 pipe. The new pipe, called Tesla, was determined to be diamondiferous. We believe this is a very significant discovery that could have major implications for the property's development.

The AK/CJ project is held 50% by Mountain Province, 40% by Glenmore Highlands Inc. and 10% by Camphor Ventures Inc. In an effort to consolidate interests, Mountain Province and Glenmore Highlands Inc. have signed a letter of intent to amalgamate the two companies. Under the proposed agreement, the wholly-owned subsidiary through which Glenmore Highlands owns its 40% interest would amalgamate with Mountain Province in exchange for approximately 17,000,000 Mountain Province common shares. Conclusion of this transaction is subject to the completion of due diligence, the negotiation and adoption of formal agreements, and obtaining the applicable regulatory and shareholder approvals.

Finally, our success through the year was greatly augmented by a C\$13.1 million financing completed in October of 1996. This private placement funding provides sufficient working capital for the foreseeable future and allows us to explore additional opportunities. In addition to these funds, Monopros purchased \$1.0 million worth of Mountain Province treasury stock at \$4.77 in April 1997 as part of the joint venture agreement.

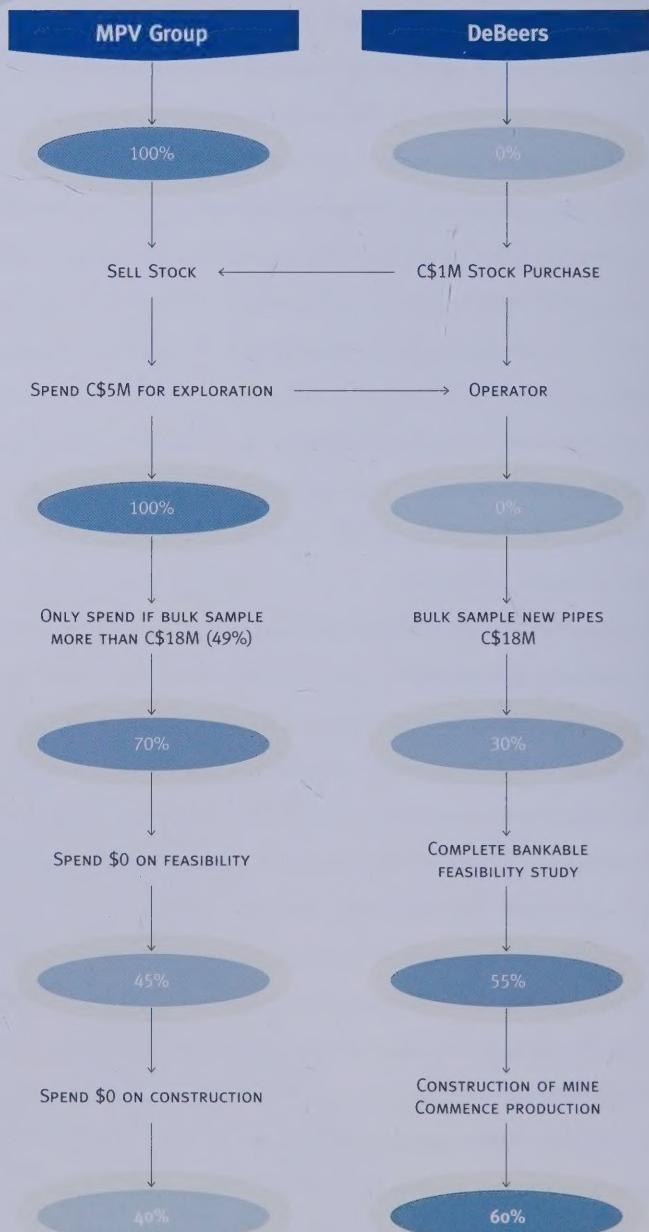
Clearly we have made significant progress in our goal to become one of Canada's premier diamond producers. This success is most gratifying to all of us at Mountain Province. I take this opportunity to thank our employees and staff for their dedication, and I also thank our shareholders for their tremendous loyalty and patience as we work toward this goal.



On behalf of the Board of Directors  
Paul Shatzko, Chairman  
July 31, 1997

## THE MOUNTAIN PROVINCE/MONOPROS AGREEMENT

The block diagram represents a simplified version of the key aspects of the joint venture between the MPV group (Mountain Province, Glenmore Highlands and Camphor Ventures) and De Beers (through its wholly-owned subsidiary Monopros Ltd.). It shows how De Beers can earn an interest up to 60% by spending money on the stock purchase, the bulk sample, a bankable feasibility study and the construction of the mine. They believe that a bulk sample of two to three pipes will cost no more than C\$18 million. If in the unlikely event that amount is exceeded, the MPV group will have to contribute 49% to the expenses over C\$18M. A bankable feasibility study can cost as much as C\$50 to C\$100 million while construction of the mine can run from C\$500 to C\$700 million.



## AK PROPERTY HOLDS INCREASING PROMISE

Results from the mini-bulk sample from the AK-5034 pipe further reinforced our confidence in the economic feasibility of the pipe. Diamonds weighing 257 carats were recovered from a total 104 tonnes of processed kimberlite for a recoverable grade of 2.48 carats per tonne. The grade of diamonds greater than 2 mm in the largest dimension is 2.10 carats per tonne.

There were three diamonds over 2.0 carats, eight diamonds equal to or greater than 1.5 carats, 43 diamonds over 0.50 carats and 556 diamonds over 0.10 carats. Diamonds were recovered from each of the 42 holes drilled for the sample. The largest diamond is 2.88 carats and four of the largest eight stones are gem quality.

Monopros has elected to delay large-scale sampling of the pipe until completing initial exploration of other areas of the AK property and identifying additional pipes. It is considerably more economic to bulk sample several pipes at the same time than only one.

The outlook for finding additional pipes continues to improve. Mountain Province's 1996 fall drilling on the AK property resulted in four drill holes intersecting narrow kimberlite dykes, while Monopros' exploration to date has already revealed at least one additional pipe.

In April, Monopros flew airborne helicopter magnetic and electromagnetic surveys over the complete southern half of the AK Claim. The area contains most of the kimberlitic indicator minerals recovered so far as well as a number of well-defined indicator mineral trains. Monopros has identified 12 indicator mineral target areas (See figure A).

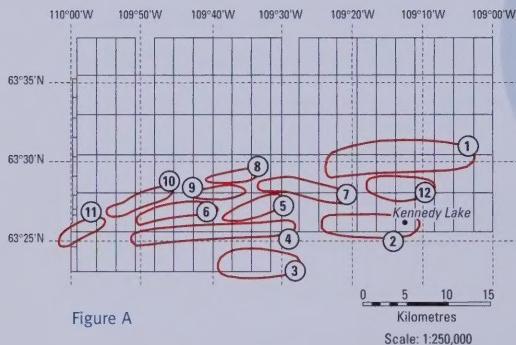
Each one of these areas could contain one or more

indicator mineral trains. The main purpose of the summer sampling program and the reprocessing of the finer fractions of the previously collected samples is to better define the individual trains, to determine if any of the trains continue into other areas, and to cut off the individual trains.

Microprobe analysis of the pyrope garnets recovered from till samples from the southern part of the AK claims has resulted in a plot of G10 and G9 garnets (garnets with different amounts of calcium and chromium) (See figure B). G10 garnets are generally associated with diamonds (they are formed under similar conditions) whereas G9's may or may not be associated with diamonds. Twenty percent of the garnets are G10's. This is a very high percentage (10% is considered very good), so these results are very encouraging. All anomalous indicator areas have G10 garnets. Some of the G10's are markedly subcalcic with high chromium levels which, according to Monopros based on their extensive database, are excellent garnets. At least half of the anomalous areas have one or more of these subcalcic garnets even given the small number of garnets recovered. Any kimberlitic bodies found at the heads of the trains in all areas have a high probability of being diamondiferous, especially the ones found in the areas with subcalcic garnets. Extensive sampling this summer and reprocessing of the finer fractions (to recover smaller size indicator minerals) of previously collected samples will greatly increase the number of garnets and should upgrade the

*continued on page 7*

# GEOPHYSICAL ANALYSIS OF AK PROPERTY



Based on the indicator minerals

(mainly garnets and ilmenites)

recovered to date, Monopros has

identified 12 discrete clusters of

indicators (anomalous areas).

Each of these areas could contain

one or more separate indicator

mineral trains. These indicator

minerals have been determined

to be kimberlitic, so they must

have come from a kimberlite

source. The key is to find as

many of these sources, which are

generally located in the vicinity

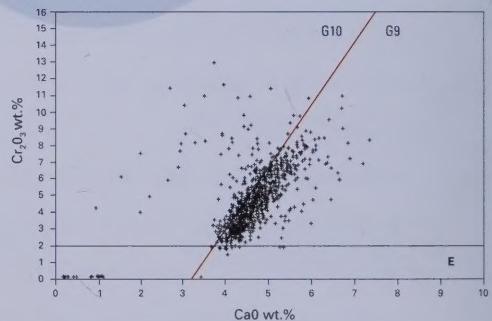
of the heads of the indicator

trains, as possible.

The extensive sampling program planned for this summer and the reprocessing of the finer fractions of previous collected samples are both aimed at better defining the separate trains and determining the positions of the heads of the trains (located at the eastern end of each train, since the glaciers moved from East to West). The 5034 pipe is at the eastern end of area 2.



Figure B



A plot of pyrope garnets

recovered from the southern

part of the AK claims.

The division between G9 and

G10 garnets is based on

their calcium and chromium

contents as determined

by microprobe analysis. G10

garnets are generally

associated with diamonds

since they are formed under

similar conditions, while

G9 garnets may or may not

be associated with diamonds.

The high percentage of

G10 garnets (20%) is very

encouraging. Each of the

12 areas in Figure A has

G10 garnets.

potential of some of the areas. Once a train has been defined and cut off, the results of the recent completed airborne geophysics (Mag and EM) will then be used to locate geophysical anomalies in the area of the head of the train. These anomalies will then be drilled. Land-based anomalies will be drilled this summer and lake-based anomalies this winter (through the ice). Drilling of seven lake-based targets was completed in the spring. In May Monopros intersected kimberlite while drilling one of these lake-based targets. This new pipe, called Tesla, is approximately 1.8 kilometres northwest of the AK-5034 kimberlite pipe. Monopros forwarded samples of the kimberlite to the De Beers Laboratories in South Africa for microdiamond, mineral chemistry and other analysis. The Tesla pipe was found to be diamondiferous with the recovery of 109 microdiamonds from 66 kg of kimberlite.

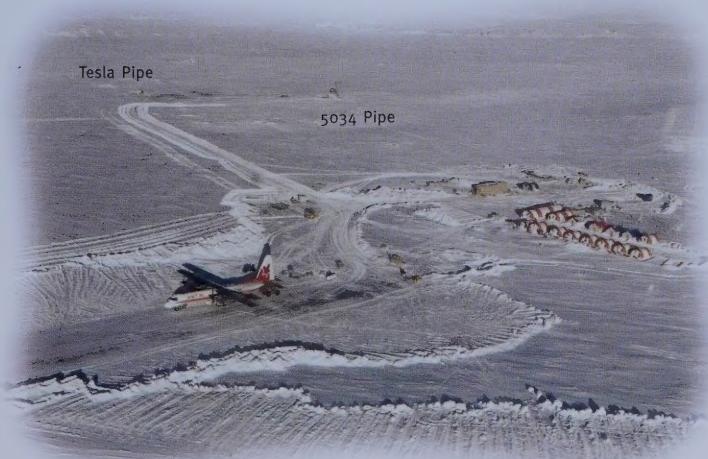
### Ketza River, Yukon

Mountain Province has recently entered into an earn-in agreement on its 100% owned Ketza River gold prospect whereby Artemis Ventures Inc. can earn successively increasing interests in the project by undertaking exploration programs on the property.

The property adjoins the Ketza gold mine which produced 100,000 ounces of gold between 1988 and 1990. B.Y.G. Natural Resources Inc. has recently acquired control of the Ketza mine and has announced plans to reopen it.

Mountain Province's previous exploration on its claims has located significant gold zones that have strong similarities to mineralization at the Ketza mine as well as silver and base metal targets.

An airborne geophysical survey of the property was completed last year and forms the basis on which to evaluate a number of gold targets on the southern half of the property. A program of trenching is proposed for this year to evaluate these target areas.



An aerial view of the Kennedy Lake camp during winter, a plane on the landing strip (on the ice), and a view of the locations of the 5034 and Tesla pipes.

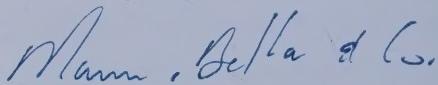
## A U D I T O R S ' R E P O R T

### To the Shareholders, Mountain Province Mining Inc.

We have audited the balance sheets of MOUNTAIN PROVINCE MINING INC. as at March 31, 1997 and 1996 and the statements of loss and deficit, deferred exploration and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 1997 and 1996 and the results of its operations and changes in its financial position for the years then ended in accordance with generally accepted accounting principles. As required by the Company Act of British Columbia, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.



Certified General Accountants  
Vancouver, B.C.

July 15, 1997

## BALANCE SHEETS

As at March 31, 1997 and 1996

	1997	1996
<b>Assets</b>		
<b>Current</b>		
Cash	\$ 11,812,265	\$ 1,378,471
Trust funds	41,860	2,886,752
Accounts receivable	206,762	329,390
Marketable securities (Note 3)	145,604	145,604
Advances and prepaid expenses	32,139	45,136
	<u>12,238,630</u>	<u>4,785,353</u>
<b>Mineral Properties (Note 4)</b>	455,900	415,320
<b>Deferred Exploration (Note 4)</b>	14,830,212	7,596,474
<b>Capital Assets</b> , at cost net of accumulated amortization of \$45,558 (1996 - \$22,938)	114,377	52,810
<b>Incorporation Costs</b>	2,099	2,099
	<u>\$ 27,641,218</u>	<u>\$ 12,852,056</u>
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 168,563	\$ 1,191,385
Due to related parties	109,840	92,651
Share subscription	-	5,319,600
	<u>278,403</u>	<u>6,603,636</u>
<b>Shareholders' Equity</b>		
<b>Share Capital (Note 5)</b>	32,565,638	9,682,976
<b>Deficit</b>	(5,202,823)	(3,434,556)
	<u>27,362,815</u>	<u>6,248,420</u>
	<u>\$ 27,641,218</u>	<u>\$ 12,852,056</u>

Approved by the Directors

The accompanying notes are an integral part of the financial statements.

# STATEMENTS OF LOSS AND DEFICIT

For the Years Ended March 31, 1997 and 1996

	<b>1997</b>	<b>1996</b>
<b>Revenue</b>		
Interest	\$ 254,744	\$ 97,870
<b>Expenses</b>		
Amortization	22,620	12,295
Consulting	277,588	79,006
Corporation capital tax	22,718	7,577
Insurance	69,207	22,015
Interest and bank charges	2,444	1,500
Management fees	174,920	75,000
Office and miscellaneous	117,801	160,663
Professional fees	452,446	334,841
Printing	45,591	20,712
Promotion and shareholder relations	154,761	238,204
Rent	74,155	32,267
Telephone	81,967	47,491
Transfer agent and regulatory fees	65,802	37,244
Travel	236,046	182,615
Wages and benefits	177,097	33,366
	1,975,163	1,284,796
<b>Loss Before the Undernoted Items</b>	(1,720,419)	(1,186,926)
<b>Gain from Marketable Securities</b>	-	316,313
<b>Loss from Write-Off of Mineral Properties and Related Deferred Exploration</b>	(47,848)	(90,000)
<b>Net Loss for the Year</b>	(1,768,267)	(960,613)
<b>Deficit, Beginning of Year</b>	(3,434,556)	(2,473,943)
<b>Deficit, End of Year</b>	\$ (5,202,823)	\$ (3,434,556)
<b>Loss Per Share</b>	\$ (0.08)	\$ (0.05)

The accompanying notes are an integral part of the financial statements.

## STATEMENTS OF DEFERRED EXPLORATION

For the Years Ended March 31, 1997 and 1996

	<b>1997</b>	<b>1996</b>
<b>Exploration</b>		
Environmental work	\$ 119,253	\$ 23,398
Geophysical survey	151,469	325,053
Sampling and processing	1,830,793	1,605,026
Drilling	4,410,088	2,681,464
Travel and supplies	732,438	350,902
Report and filing fees	28,124	39,115
<b>Deferred Exploration for the Year</b>	<b>7,272,165</b>	<b>5,024,958</b>
<b>Deferred Exploration, Beginning of Year</b>	<b>7,596,474</b>	<b>2,571,516</b>
<b>Write-Off of Deferred Exploration</b>	<b>(38,427)</b>	<b>-</b>
<b>Deferred Exploration, End of Year</b>	<b>\$ 14,830,212</b>	<b>\$ 7,596,474</b>

The accompanying notes are an integral part of the financial statements.

**STATEMENTS OF CHANGES  
IN FINANCIAL POSITION**

For the Years Ended March 31, 1997 and 1996

	1997	1996
<b>Operating Activities</b>		
Net loss for the year	\$ (1,768,267)	\$ (960,613)
Deferred exploration costs	(7,272,165)	(5,024,958)
	<u>(9,040,432)</u>	<u>(5,985,571)</u>
Items not involving cash:		
Amortization	22,620	12,295
Loss from write-off of mineral properties and related deferred exploration	47,848	90,000
	<u>(8,969,964)</u>	<u>(5,883,276)</u>
Cash provided (used) by net changes in non-cash working capital items	(870,008)	665,886
	<u>(9,839,972)</u>	<u>(5,217,390)</u>
<b>Financing Activities</b>		
Share subscriptions	(5,319,600)	5,319,600
Shares issued for cash, net of commissions	22,882,662	2,353,911
Marketable securities received for mineral properties (net)	-	137,971
	<u>17,563,062</u>	<u>7,811,482</u>
<b>Investing Activities</b>		
Acquisition of mineral properties	(50,000)	-
Acquisition of capital assets	(84,188)	(22,895)
	<u>(134,188)</u>	<u>(22,895)</u>
<b>Increase in Cash</b>	<b>7,588,902</b>	<b>2,571,197</b>
<b>Cash, Beginning of Year</b>	<b>4,265,223</b>	<b>1,694,026</b>
<b>Cash, End of Year</b>	<b>\$ 11,854,125</b>	<b>\$ 4,265,223</b>
<b>Represented by:</b>		
Cash and short-term investments	\$ 11,812,265	\$ 1,378,471
Trust fund	41,860	2,886,752
	<u>\$ 11,854,125</u>	<u>\$ 4,265,223</u>

The accompanying notes are an integral part of the financial statements.

## NOTES TO FINANCIAL STATEMENTS

March 31, 1997 and 1996

### **1. Nature of Operations**

The Company is in the process of exploring its mineral properties and has not yet determined whether these properties contain mineral reserves that are economically recoverable. The recoverability of the amount shown for mineral properties is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete exploration and development, and upon future profitable production or proceeds from disposition of such properties.

### **2. Summary of Significant Accounting Policies**

#### **a) Deferred Exploration**

Exploration costs relating to mineral properties are deferred until the property is brought into production, at which time the deferred costs are to be amortized on a unit of production basis over proven probable reserves, or until the property is abandoned or sold, at which time the deferred costs are to be written off.

The amounts shown as mineral properties and deferred exploration represent unamortized costs to date and do not necessarily reflect present or future values.

#### **b) General and Administrative Expenses**

The Company charges all general and administrative expenses not directly related to exploration activities to operations as incurred.

#### **c) Amortization**

Capital assets are amortized over their estimated useful lives at 20% - 30% declining basis. Further, only one-half the amortization is taken on assets acquired during the year.

#### **d) Loss Per Share**

Loss per share has been calculated based on the weighted average number of shares outstanding during the year.

#### **e) Joint Ventures**

Joint ventures are accounted for using the equity method.

### **3. Marketable Securities**

Marketable securities are carried at the lower of cost and market.

### **4. Mineral Properties and Deferred Exploration**

#### **Acquisition Costs:**

	<b>1997</b>	<b>1996</b>
Ketza River Project	\$ 30,582	\$ 30,582
Molanosa Diamond Project	5,000	5,000
AK/CJ Claims	211,510	161,510
Ft. a La Corne Property	-	9,420
598909 Saskatchewan and Northern Saskatchewan Claims	95,000	95,000
Tobin Lake Area Claims	23,808	23,808
Mary Dale Property	90,000	90,000
	<hr/>	<hr/>
	\$ 455,900	\$ 415,320

#### **Deferred Exploration:**

Ketza River Project	\$ 777,186	\$ 752,186
Molanosa Diamond Project	614,428	614,428
598909 Saskatchewan & Northern Saskatchewan Claims	33,206	33,206
Ft. a La Corne Property	-	38,426
AK/CJ Claims	13,405,392	6,158,228
	<hr/>	<hr/>
	\$14,830,212	\$7,596,474

#### **a) Ketza River Project**

The Company is the registered owner of certain mining claims situated in the Ketza River Gold Camp, Watson Lake Mining District, Yukon Territory. These claims were staked by the Company during the year ended March 31, 1988, at a total cost of \$30,582. The Ketza River Project covers approximately 11,000 acres.

The Company entered into an agreement dated November 29, 1995 pursuant to which Eurotech Technologies Inc. will be entitled to earn an undivided 50% interest by expending \$1,000,000 on the exploration, development and mining of the Ketza River claims, and by issuing to the Company a total of 200,000 of its common shares.

#### **b) Molanosa Diamond Project**

Pursuant to an agreement dated March 8, 1993, the Company acquired a 50% interest in 5 mineral claims situated in the Northern Mining District, Province of Saskatchewan. As consideration, the Company advanced \$220,000 for exploration expenditures. In addition the Company staked 22 additional mineral claims which have been added to this option.

The Company formed a joint venture with the option or pursuant to an agreement dated March 8, 1993, which agreement contains the standard dilution and other joint venture operating provisions.

## NOTES TO FINANCIAL STATEMENTS

March 31, 1997 and 1996

### 4. Mineral Properties and Deferred Exploration (cont'd)

#### c) AK/CJ Claims

Pursuant to an agreement dated August 18, 1992 and amended November 13, 1992 and January 8, 1993, the Company entered into an option with Inukshuk Capital Ltd. ("Inukshuk") to acquire a 100% undivided interest in certain mineral claims located in the District of Mackenzie, Northwest Territories.

As consideration, the Company paid \$380,000, issued 200,000 shares and spent \$1,500,000 for exploration on the properties. The claims are subject to a 3% gross overriding royalty with a minimum advance royalty of \$200,000 per year commencing five years from the date the Company earns its option in the claims. The Company has the right to acquire the 3% gross overriding royalty for \$5,000,000 at any time until November 25, 1999. During the year additional finder's fee of \$50,000 was paid by the Company.

Pursuant to an agreement dated November 18, 1993 and subsequently amended, the Company optioned 40% of its interest in the AK/CJ claims to 444965 B.C. Ltd. As consideration the Company received \$1,151,144.

Pursuant to an agreement dated August 16, 1994 and subsequently amended, the Company assigned another 10% of its interest in the AK/CJ claims to Camphor Ventures Inc. As consideration Camphor Ventures Inc. issued 400,000 of its shares to the Company, and has agreed to contribute 20% towards exploration expenditures of up to \$1,000,000 and 10% thereafter.

Pursuant to a joint venture agreement dated March 6, 1997 between the Company, 444965 B.C. Ltd. and Camphor Ventures Inc. (Collectively the "MP" Group) and Monopros Limited ("Monopros"), Monopros has the right to earn up to a 60% interest in the AK/CJ claims. As consideration Monopros has agreed to conduct an exploration program on the property, to complete a bulk sampling program and a feasibility study on one or more new kimberlites, and to fund the development and construction of a commercial mine. Further, Monopros has agreed to subscribe for 209,644 units at a price of \$4.77 each. Each unit will comprise one common share of the Company and one non-transferable warrant to purchase one additional common share of the Company at \$6.36 per share exercisable before March 6, 1999. See Note 8 (a) & (c).

#### d) Pipe Claims

Pursuant to an agreement dated March 4, 1993, the Company acquired 30 mineral claims located in the Mackenzie Mining District, Northwest Territories. As consideration the Company paid \$77,475 and issued 100,000 shares. The Company acquired an additional 75 claims in the vicinity of the Pipe Claims and advanced \$90,000 towards the staking costs. During the year ended March 31, 1995 the Company abandoned 30 of the 105 mineral claims for a loss of \$169,639. The remaining claims were written off during the year ended March 31, 1996 for a loss of \$90,000.

#### e) Ft. a La Corne Property

The Company owns a 37.5% undivided interest in certain mineral claims known as the Ft. a La Corne Property located in Saskatchewan. The Company formed a joint venture pursuant to an agreement dated December 7, 1993, which agreement contains the standard dilution and other joint venture operating provisions. During the year the Company abandoned this property. Accordingly, the acquisition cost of \$9,420 and deferred exploration costs of \$38,427 were written off.

#### f) 598909 Saskatchewan Claims & Northern Saskatchewan Claims

Pursuant to an agreement dated January 17, 1994, the Company acquired a 50% interest in 15 mineral claims located in the Province of Saskatchewan. As consideration the Company paid \$15,000 and issued 100,000 shares. In addition the Company incurred approximately \$24,000 of exploration expenditures. The claims are subject to a 1% net smelter return and a 3% gross overriding royalty. Pursuant to agreements dated February 22, 1994 the Company acquired a 100% undivided interest in 43 mineral claims known as Northern Saskatchewan claims located in the Province of Saskatchewan. As consideration the Company paid \$25,000 and issued 200,000 shares. The claims are subject to a 1% net smelter return and a 3% gross overriding royalty.

Pursuant to the agreements dated April 8, 1994 and March 15, 1995 the Company optioned 50% of its interest in 4 of the 598909 Saskatchewan claims and 32 of the Northern Saskatchewan claims.

## NOTES TO FINANCIAL STATEMENTS

March 31, 1997 and 1996

### **4. Mineral Properties and Deferred Exploration (cont'd)**

#### **f) 598909 Saskatchewan Claims & Northern Saskatchewan Claims (cont'd)**

As consideration the Company received 35,000 common shares of War Eagle Mining Company Inc. and 35,000 common shares of Great Western Gold Corp. ("Candle Lake Joint Venture"). The Company will receive an additional 40,000 common shares of each company upon discovery of a diamondiferous kimberlite on the claims and an additional 20,000 common shares of each company upon the preparation and release of a feasibility study giving a positive recommendation for entering into production. Further, Kennecott Canada Inc. has agreed to incur expenditures on these claims as part of the Candle Lake Joint Venture to earn a 60% interest which would leave the Company with a 10% interest. Total work commitment by Kennecott Canada Inc. on the Candle Lake Joint Venture is \$8,000,000.

#### **g) Tobin Lake Area Claims**

Pursuant to an agreement dated January 24, 1994, the Company acquired a 25% interest in mineral claim S-105084 located in the Tobin Lake Area, Province of Saskatchewan. As consideration the Company issued 38,400 shares and agreed to issue an additional 38,400 shares in the event that kimberlite is intersected at bedrock on the property. The claim is subject to a 3% gross overriding royalty. Under the terms of the agreement, the Company has the right to acquire 50% of the gross overriding royalty for \$1,500,000.

#### **h) Mary Dale Property**

Pursuant to an agreement dated June 13, 1994, the Company acquired a 100% interest in three mineral claims located in the Northern Mining District, Province of Saskatchewan. As consideration the Company paid \$10,000 and issued 100,000 shares. The claims are subject to a 3% gross overriding royalty.

### **5. Share Capital**

#### **a) Authorized**

100,000,000 Common shares without par value.

#### **b) Issued and fully paid**

	Number of Shares	Amount
Balance, March 31, 1995	16,024,483	\$ 7,329,065
Issued pursuant to exercise of stock options	727,539	313,619
Issued pursuant to exercise of warrants	1,765,801	1,191,434
Issued pursuant to private placement	<u>192,922</u>	848,858
Balance, March 31, 1996	18,710,745	9,682,976
Issued pursuant to exercise of special warrants	1,300,000	5,266,658
Issued pursuant to a prospectus	2,675,000	12,189,975
Issued pursuant to exercise of stock options	1,074,000	4,644,498
Issued pursuant to exercise of agent's options and warrants	<u>166,875</u>	781,531
Balance, March 31, 1997	<u>23,926,620</u>	<u>\$32,565,638</u>

See Note 8 (c).

#### **c) Stock Options**

As at March 31, 1997 the following directors and employee stock options were outstanding:

Number of Shares	Exercise Price	Expiry Date
639,000	\$ 4.92	October 30, 1997
500,000	5.05	June 24, 1998
838,000	4.00	December 12, 1998

See Note 8 (b).

#### **d) Share Purchase Warrants**

As at March 31, 1997 the following share purchase warrants were outstanding:

Number of Shares	Exercise Price	Expiry Date
719,375	\$ 5.25	December 29, 1997
1,337,500	5.75	December 31, 1997

See Note 8 (c).

# NOTES TO FINANCIAL STATEMENTS

March 31, 1997 and 1996

## 6. Proposed Business Combination

Pursuant to a letter of intent dated March 6, 1997, 444965 B.C. Ltd. has agreed to amalgamate with the Company to consolidate their respective interests in the AK/CJ claims. The new amalgamated company will be named Mountain Province Mining Inc. Under the agreement, the Company's issued and outstanding shares will be exchanged on a 1:1 basis for new shares in the capital of the amalgamated company. 444965 B.C. Ltd. will exchange its shares for approximately 17,000,000 shares in the amalgamated company. The agreement is subject to due diligence, final documentation and regulatory and shareholder approvals.

## 7. Contingent Liabilities

The Company's total minimum rentals for two operating leases, which expire on May 31, 1999 and June 30, 1998 are as follows:

1997	-	\$ 34,601
1998	-	32,739
1999	-	8,060
		<u>\$ 75,400</u>

## 8. Subsequent Events

### a) Sales and Settlement Agreement

On March 27, 1997, Inukshuk Capital Ltd. ("Inukshuk") issued a petition in the Supreme Court of British Columbia asserting that it held a valid right of first refusal to purchase any interest in the AK/CJ claims and that the MP Group had breached this right by entering into an agreement with Monopros Limited ("Monopros") whereby it could earn up to a 60% interest in the property. Inukshuk also obtained an injunction restraining the MP Group and Monopros from disposing of the property.

Inukshuk also commenced arbitration proceedings on April 18, 1997 against the Company. The arbitration held in favour of Inukshuk, finding that its right of first refusal was valid and subsisting. The petition, injunction and arbitration were dismissed and cancelled in pursuance of a sales and settlement agreement dated June 18, 1997 under which comprehensive mutual releases were exchanged as follows:

i) The Company, on behalf of the MP Group, paid \$3,000,000 for the purchase of 3% gross overriding royalty (see Note 4 (c)), and \$500,000 for the right of first refusal from Inukshuk; and

ii) the Company, on behalf of the MP Group, paid to Canamera Geological Ltd. ("Canamera") \$250,000 by way of termination fee in respect of the termination by the MP Group of the operator agreement, and \$200,000 in full and final settlement of actual or anticipated expenses relating to camp demobilization etc.; and

iii) the Company, on behalf of the MP Group paid John Dupuis \$250,000 by way of compensation for alleged loss of reputation; and

iv) Canamera will convey to the Company good and marketable title to the camp assets.

See Note 4 (c).

### b) Stock Options

Subsequent to March 31, 1997, stock options were granted to an employee to acquire 50,000 shares at \$2.72 per share exercisable up to April 15, 1999.

### c) Issuance of Shares

Subsequent to March 31, 1997, 209,644 shares were issued to Monopros Limited to net the Company \$1,000,000. The issuance was pursuant to a subscription agreement for 209,644 units at \$4.77 per unit. Each unit consists of one common share and one share purchase warrant to purchase one additional share at \$6.36 per share within two years.

## 9. Related Party Transactions

- a) During the year the Company paid \$174,920 (1996 - \$75,000) for management services to a director of the Company.
- b) During the year the Company paid \$72,688 (1996 - \$49,041) for secretarial and public relations services to third parties related to a director of the Company.
- c) During the year the Company paid \$205,335 (1996 - Nil) for consulting, management and administration services to directors of the Company.

## 10. Comparative Figures

Certain comparative figures have been reclassified to conform with current year presentation.

## C O R P O R A T E   I N F O R M A T I O N

### Officers & Directors:

**Paul Shatzko, M.D.**

Chairman & Director

**Jan W. Vandersande, Ph.D.**

President & Director

**Jesus R. Martinez, M.Sc., P.Eng.**

Secretary & Director

**Carl G. Verley, P.GeoL.**

Director

**Raj I. Chowdhry, C.A.**

Director

### Shares Traded:

Vancouver: Symbol MPV

NASDAQ: Symbol MPVIF

### Capitalization:

Shares Authorized 100,000,000

Shares Issued 24,136,264

Fully Diluted 28,849,408

### Canadian Office:

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U.S. Toll Free: 1-800-220-1943

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### Legal Counsel

Campney & Murphy

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Vancouver, B.C. V7X 1K9

### Bank

Bank of Montreal

Main Branch

Vancouver, B.C.

### Auditors

Minni, Bella & Co.

Suite 1104 - 750 West Pender St.

Vancouver, B.C. V6C 2T8



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